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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

CIA INTERNAL USE ONLY

11 September 1956

STAFF MEMORANDUM NO. 75-56

SUBJECT: Revision of NIE 100-3-56, Sino-Soviet Policy and Probable Effects in Underdeveloped Areas

1. It was suggested in Staff Memorandum No. 65-56 that NIE 100-3-56 be revised in a follow-up estimate which would be issued by the end of the year to coincide with the annual revision of basic US policy. However, a revision of the estimate in this short a deadline could only include the following improvements: (a) some tightening up the general organization and presentation; (b) a fuller statement of Bloc capabilities; and (c) some updating of Bloc performance in specific countries on the basis of new information. We do not believe that these refinements would be of material benefit to the over-all policy decisions likely to take place this fall -- the main conclusions of NIE 100-3-56 are still valid and adequately pose the over-all policy problem.

2. We do believe, however, that 100-3-56 can be revised so as to be of assistance in working out the details of our aid policy during the spring of 1956. This can be done by a more detailed examination by area and where necessary by specific country of the most likely targets for Bloc programs, as well as of the probable Bloc courses of action and their probable effects. The need for more detailed estimates of specific country situations is especially important because of the flexibility which the Soviets have demonstrated to date in exploiting situations favorable to them. The problem of making detailed situation estimates while still retaining an over-all perspective of Bloc strategy in underdeveloped areas will require careful handling. In the proposed terms of reference, it is envisioned that situational or country detail will be developed and generalized within four regional frameworks -- South and Southeast Asia, the Middle East, Africa, and Latin America.

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3. One basic question is precedence in the treatment of contingent economic and political factors. In the attached paper economic "vulnerabilities" are considered first and then these "vulnerabilities" are further appraised in terms of contingent political "vulnerabilities". The procedure could be reversed.

4. Another major problem is how to prevent this paper from becoming a full-fledged round-up of both Soviet total capabilities (diplomatic, propaganda, Communist party, etc.) in the underdeveloped areas and the areas' "vulnerability" to the over-all Soviet approach. Obviously the economic aspects cannot be entirely separated from the political, strategic, etc. We have attempted to meet this problem by concentrating on the economic aspects, ringing in the political contingencies as necessary and only when they have an important bearing. This approach has the additional advantages that precise economic data is more readily available and that an economic focus will make the paper more directly responsive to the needs of those with responsibilities for US foreign aid policies.

5. It is recommended that 100-3-56 be scheduled for revision along the lines developed in the attached terms of reference and that the revised estimate be scheduled for completion in March 1957.

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SUBJECT: SINO-SOVIET FOREIGN ECONOMIC POLICY  
AND PROBABLE EFFECTS IN UNDERDEVELOPED AREAS

THE PROBLEM

- (a) To review the nature of current Sino-Soviet Bloc objectives in underdeveloped areas; <sup>1/</sup>
- (b) To estimate Bloc capabilities to employ foreign economic programs as a component of their over-all strategy; and
- (c) To estimate the receptivity of given underdeveloped areas to current and probable Bloc economic programs and the net effect of these programs in the achievement of Bloc objectives.

SCOPE NOTE

1. NIE 100-3-56 was a first attempt to estimate the Bloc's newly emerging policy toward underdeveloped areas. Since its completion, the Bloc has continued to employ a broad range of political and economic measures to weaken Western, in favor of Bloc, influence in underdeveloped areas. Increasing new intelligence is becoming available on the pattern of Bloc programs and on local reactions to them. There is reason to believe that Soviet leaders are following a line to which they intend to

1/ As used herein "underdeveloped areas" is intended to encompass those countries in which (a) per capita income is low when compared with Western Europe and (b) there is a high dependence on foreign assistance for an improved utilization of resources.

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adhere for a considerable period. This paper is directed toward a more detailed estimate of the receptivity of given underdeveloped areas to current and probable Bloc programs and the net effect of these programs.

2. It is envisioned that the paper will give special attention to Bloc economic and technical assistance as one of several major instruments supporting its foreign policy objectives. Bloc economic capabilities will be estimated in terms of general trends and aggregates as well as specific types of economic goods and technical services potentially available for foreign programs. The principal emphasis and major portion of the paper will be an estimate of the economic and, to a somewhat lesser extent, the socio-political circumstances in different underdeveloped areas affecting the probable deployment of Bloc capabilities and the probable net effects. Regions which will be considered are South and Southeast Asia, the Middle East, Africa, and South America. Generalizations should be developed on a regional basis but sufficient country detail should be included to estimate critical vulnerabilities to Bloc tactics.

3. Insofar as possible, estimates of Bloc capabilities, probable courses of action, and effects will be made for the period extending through 1960.

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QUESTIONS BEARING ON THE PROBLEM

I. INTRODUCTION - SOVIET AND BLOC POLICY TOWARD UNDERDEVELOPED COUNTRIES

A. Describe briefly Sino-Soviet Bloc objectives in underdeveloped countries. To what extent is there a harmony of interest or potential conflict of interest among the USSR, Communist China, and the European Satellites in the pursuit of these objectives?

B. Describe the principal elements of Bloc foreign economic policy in underdeveloped countries.

1. On what terms have Bloc sales and offers of Bloc military equipment been made?

2. Outline the extent of Bloc capital equipment<sup>2/</sup> and technical assistance to major underdeveloped areas and to specific countries since 1 January 1955, which have been provided or contracted under the following arrangements:

- a. Grants
- b. Credits for capital works projects.
- c. Capital and technical assistance bartered for surplus raw materials.
- d. Capital equipment exports under other commercial exchanges.

<sup>2/</sup> Capital equipment is defined as metals and metal goods, machine tools, machinery, vehicles, construction equipment, etc.

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3. Outline the type and extent of Bloc technical and scientific assistance since 1 January 1955 which has not been directly related to capital equipment exports.

4. What is the number and distribution, by types of skills and geographic areas, of Bloc technicians working in underdeveloped areas during 1956? Outline the type and extent of training facilities in the Bloc made available to citizens of underdeveloped countries during 1956.

5. What is the volume and general commodity composition of Bloc trade with underdeveloped countries since 1 January 1955 by countries and major areas?

(It is intended to present the tabulation of data requested in paragraphs B 2 through 5 in appendices to the paper.)

C. What is the relation of the Bloc's foreign economic tactics to its over-all strategy in underdeveloped countries?

D. To what extent is Bloc motivation in providing capital and technical assistance to underdeveloped countries guided by:

1. The short term objective of eroding Western and increasing Bloc influence.

2. The long term objective of encouraging fundamental socio-political change in underdeveloped countries in order to

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increase the potential growth of internal Communism.

3. The economic objective of more fully realizing the comparative advantages of increased trade.

E. To what extent is it true that European Satellite capital and technical programs in underdeveloped countries tend to be more economically motivated whereas USSR programs tend to be more politically motivated?

1. Accepting that the economy of the USSR has an emerging complementary relationship to the economies/<sup>of</sup>underdeveloped countries, to what extent can the major credit and barter deals with Afghanistan, Burma, Egypt and India be justified in terms of primary economic advantage to the USSR?

2. To what extent are the real economic needs of East Germany, Czechoslovakia, and Hungary for trade exchanges with underdeveloped countries being directed toward political ends in an over-extension of export credits they can ill afford, or in accepting raw materials in excess of their own needs which they find difficulties in selling? Discuss the nature and extent of Soviet direction of the European Satellite foreign economic programs in underdeveloped countries.

**II. SOVIET BLOC CAPABILITIES FOR FOREIGN CAPITAL AND TECHNICAL ASSISTANCE**

A. To what extent will the planned internal economic goals and intra-Bloc trade commitments limit potential capital exports from Bloc

countries in 1957?

B. For what types of capital equipment will the Soviet Bloc attain a significantly expanding export potential in 1957, in 1960?

C. Outline the dependence of the USSR and European Satellites on specific raw material imports: (a) in 1957 and (b) in 1960, assuming the attainment of currently planned production goals, assuming the probable failure to attain certain currently planned production goals.

D. To what extent are the European Satellites shifting their dependence on raw material imports from the USSR to underdeveloped countries? What is the probable trend of this dependence by 1960?

E. Discuss the comparative terms for capital equipment available to underdeveloped countries from the Bloc and from the West.

F. What is the record of Bloc performance to date in meeting commitments for capital deliveries, capital construction, and technical assistance in underdeveloped countries?

G. Characterize the general competence of technical advisors being sent from the Bloc to underdeveloped countries. For what types of technicians will the Bloc have an export potential in the period 1957 through 1960?

H. How complementary is the Chinese economy with those of underdeveloped countries? Outline the capability of the Chinese economy for

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providing goods required by underdeveloped countries and purchasing their export surpluses in 1957 and in 1960.

I. What, if any, is the dependence of the Bloc on imports from Western industrial countries for meeting Soviet trade commitments to underdeveloped areas?

III. RECEPTIVITY OF UNDERDEVELOPED AREAS TO BLOC ECONOMIC PROGRAMS

Note: In order to permit an estimate on a regional basis of the opportunities available to the Bloc for the deployment of its economic capabilities and the net effects of probable Bloc courses of action, the following questions should be considered for each of these major areas: South and Southeast Asia, the Middle East, Africa, and South America.

A. Characterize the current stage of economic development.

1. To what extent can these countries be considered underdeveloped? Do they consider themselves to be underdeveloped in terms of current national aspirations? Provide available indices on per capita incomes or standard of living.

2. What is the direction and pattern of current economic development? What internal resources are being allocated to capital formation? What plans, if any, have been adopted for future development?

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B. What is the extent of current dependence on foreign trade and capital assistance?

1. What is the importance of foreign trade to the economies of these countries?

2. Are any major export sectors experiencing difficulties in sustaining foreign markets? What is the outlook for these markets by 1960? How important are depressed export sectors, if any, to the economic stability or growth of these countries?

3. What is the current level and nature of capital equipment imports and technical assistance from the West and how do these compare with Bloc programs?

4. What is the number and distribution, by types of skills and geographic areas, of Western technicians working in under-developed areas during 1956?

5. Outline the current flow of Western credits and long term investment to this region. What part of Western investment is directly related to the extraction of raw materials?

(It is intended to present the tabulation of data requested in paragraphs B 3 through 5 in appendices to the paper.)

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6. To what extent have countries accepting major Bloc credits seriously over-extended themselves in terms of: (a) meeting scheduled repayments or (b) accepting assistance for industrial projects which are not suited to current economic requirements?

C. To what extent are these countries likely to be economically receptive to expanded economic relations with the Bloc?

1. Are they actively seeking foreign technical assistance from any source which has not been forthcoming?

2. Are they aware of a need for capital equipment not presently available?

3. What major surplus commodities, and in what quantities, will be available for export to the Bloc in 1957, and in 1960?

4. Could Bloc assistance in any of the three above points contribute substantially to alleviating economic pressures and/or meeting aspirations for basic economic development?

D. What political factors make these countries currently or potentially receptive to Bloc offers? To what extent are such factors as anti-colonial orientation, specific grievances against Western powers, desire to be on good terms with both sides, and well placed local Communist leaders likely to increase the receptivity of any of these countries to Bloc inducements and influence?

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E. What political factors inhibit these countries from accepting Bloc offers? To what extent are such factors as fear or hatred of the Communists, commitments to the West, and a desire to remain on good terms with the West likely to limit the acceptance of Bloc offers?

F. Which of these countries are most likely to be motivated primarily by considerations of economic advantage in their relations with both the West and the Bloc?

IV. PROBABLE BLOC COURSES OF ACTION IN UNDERDEVELOPED AREAS AND THEIR PROBABLE EFFECTS

In view of the factors considered in Sections II and III, what are the probable Bloc courses of action and their affects in each of the four areas?

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